

GENERAL COUNSEL'S REPORT

December 13, 2017

B. SBH-Kingsport, LLC, Kingsport (Sullivan County), TN-CN1312-050DA

Approved by an Initial Order on 2/8/2016, which the Agency affirmed by a 5-4 vote as a Final Order on 6/22/2016, for the establishment of a new 72 bed free standing mental health hospital and initiation of inpatient psychiatric and substance abuse services. The mental health hospital will consist of 28 inpatient beds for psychiatric care for children ages 5-17, 18 inpatient beds for adult psychiatric care for adults ages 18-64, 16 inpatient beds for geropsychiatric care for ages 55+, and 10 adult chemical dependency beds. The project will accept voluntary and/or involuntary admissions.

Request for a increase in project cost from \$11,691,609 to \$15,855,835.

BAKER DONELSON
BEARMAN, CALDWELL & BERKOWITZ, PC

2017-11-01

BAKER DONELSON CENTER, SUITE 800
211 COMMERCE STREET
NASHVILLE, TENNESSEE 37201

PHONE: 615.726.5600
FAX: 615.726.0464

www.bakerdonelson.com

WILLIAM WEST, SHAREHOLDER
Direct Dial: (615) 726-5561
Direct Fax: (615) 744-5561
E-Mail Address: bwest@bakerdonelson.com

November 1, 2017

Ms. Melanie Hill
Executive Director
Tennessee Health Services and Development Agency
Andrew Jackson Building, 9th Floor
502 Deaderick Street
Nashville, TN 37243

Via Hand Delivery

Re: CN1312-050: SBH-Kingsport, LLC Construction Progress and Cost Issues - Request to modify CON to reflect increased project costs

Dear Ms. Hill:

As you know, this firm represents SBH-Kingsport, LLC, the recipient of CON No. 1312-050 for the establishment of a 72-bed free-standing mental health hospital and the initiation of inpatient psychiatric services in Kingsport, Tennessee.

Since the related contested case proceedings concluded, SBH-Kingsport, LLC has been in the process of carrying out the project's construction as called for by its CON application. The letter dated October 20, 2017 from Thomas Construction Group, LLC confirms the progress made so far. The progress report being filed by SBH-Kingsport, which accompanies this letter, indicates that significant work has been accomplished in the site preparation and laying the basic foundation of the building for this hospital.

As indicated by the attached letter from Thomas Construction Group, LLC, the builders of this project, the site work began on July 26, 2017, and included sewer relocation and wetland/stream remediation. Some of these site preparation costs were unforeseen in the original construction budget. Site preparation costs are now estimated to be \$1,050,108, an increase of \$375,108 over original estimates.

Because the budget for this project was drawn up in 2013, the project is experiencing significant increases in construction costs due to inflation and construction market conditions such as skilled labor shortages. According to Thomas Construction, general construction cost increases as described above over the time since the filing of the certificate of need application herein is projected to be approximately \$2,614,013.

In addition to inflation, the second category of cost increase that the applicant has identified is driven by JCAH and other regulatory requirement changes since 2013. For example, there have been changes in the JCAH requirements for anti-ligature hardware for doors and for plumbing fixtures in facilities like this project. Similar increases in this type of cost include electrical code changes requiring steel conduits for electrical cabling. Thomas Construction estimates that these increases total approximately \$189,924.

The third category of cost increases for this project is one that we have termed "scope of work" changes that also drive increases in estimates of costs for this project. Scope of work changes are planned within the building, such as the applicant's decision to switch its kitchen facilities to the type of kitchen referred to as a "Green Kitchen". A "Green Kitchen" uses electric induction ovens for cooking, in order to eliminate the use of open flames and the spreading of grease particles and fumes from the kitchen. The increase in costs driven by the choice of a "Green Kitchen" for this project is \$172,918.

Also included in the scope of work changes for this project is the applicant's decision to add approximately 2,332 square feet to the building, approximately a 4.4% increase in square footage. None of this increase is for patient rooms or additional patient beds. As shown on the attached drawing, this increase consists of five components. The first plan alteration is the addition of eight small counseling and consultation offices as shown in the yellow boxes on the attached drawing. The square footage for the eight offices totals 1,081 square feet. The applicant is also adding one storage room for patient belongings, which adds 105 square feet. As shown by the green colored area on the drawing, SBH-Kingsport has also increased the corridor width of the outpatient wing of the building, increasing the hallway width from five feet to eight feet to provide better accommodations for patients with physical disabilities, easier emergency access, and a more regulated hallway. This adds 366 square feet to the project. SBH-Kingsport also decided to add two restrooms next to the dining hall to eliminate distance from the dining hall area to available restrooms. Finally, the applicant has determined to add a hallway on the exterior of the building next to the geriatric wing. This hallway adds approximately 508 square feet to this project.

When all of these scope of work changes are added together, the total scope of work change cost estimate amounts to \$803,740. This includes \$547,182 (4.7% of the original project cost) for the additional 2,332 square feet referenced above.

The combined total of cost increases due to increased site preparation costs, construction cost increases, costs from regulatory requirement changes and costs of scope of work changes is \$3,982,785.

In addition to the construction and facility related costs listed above, the CON holder has identified other increased project costs, as listed below: architectural fees increased by \$136,469 to \$403,469; site acquisition costs increased by \$16,181 to \$941,181; and the construction contingency fund increased by \$28,791 to \$228,791. The total increase in costs for these items is \$181,441. The cost increases referred to herein are set forth below in tabular form:

Site prep cost increase	\$ 375,108
Construction cost increases	\$2,614,013
Regulation-driven cost increases	\$ 189,924
Scope of work changes	\$ 803,740
Arch. fee increases, etc.	\$ 181,441
Total increases	\$4,164,226

When all the additional costs are added, as shown by the attached revised project cost form, the total project costs for this project will rise to \$15,855,835, not including any increased CON filing fees. This variance between the original CON project costs of \$11,691,609 and the revised CON project costs amounts to \$4,164,226. This increase amounts to 35.6% of the original project cost for this project. We respectfully request that you or the HSDA itself, if necessary, authorize the increase of the total project costs for this project to \$15,855,835.

Thus, pursuant to the applicable CON statutes and HSDA rules, SBH-Kingsport, LLC respectfully requests that you, pursuant to the authority delegated to you as Executive Director of the HSDA under T.C.A. § 68-11-1606(d), grant SBH-Kingsport, LLC's request for modification of its project costs for CON No. CN1312-050A. The new level of project costs for this project should be \$15,855,835. We include with this letter a check in the amount of \$9,370 for the additional filing fees.

If you have any questions, please advise. I look forward to meeting with you to answer any questions you may have.

Sincerely,

BAKER, DONELSON, BEARMAN,
CALDWELL & BERKOWITZ, PC



William West

WHW/mhh
Enclosures

cc: Jim Shaheen
Mike Garone



State of Tennessee

Health Services and Development Agency

Andrew Jackson Building, 9th Floor, 502 Deaderick Street, Nashville, TN 37243

www.tn.gov/hsda

Phone: 615-741-2364

Fax: 615-741-9884

ANNUAL PROGRESS REPORT ANNUAL REVIEW FOLLOWING CERTIFICATION

Project Name: SBH Kingsport dba Creekside Behavioral Health Certificate of Need #: CN1312-050

Legal Owner: SBH-Kingsport, LLC Approval Date: June 28, 2016

Expiration Date: November 11, 2019

Project Description:

Establishment of a new inpatient psychiatric hospital, initiation of inpatient psychiatric hospital services having 72 new licensed psychiatric beds [18 adult, 16 geropsychiatric, 28 child and adolescent, and 10 chemical dependency].

Site Address: 1025 Executive Park Boulevard, Kingsport (Sullivan County), TN 37660

Estimated project cost of: \$11,691,609

******PLEASE SUBMIT EVIDENCE TO SUPPORT EACH ANSWER******

In a brief narrative, please describe the current stage of completion for the project (use another sheet of paper if necessary). **Please note that this report will not be considered complete without this information.**

Since the Certificate of Need was awarded, the following progress has been made:

- Finalized land due diligence
- Closed on site
- Completed civil and architectural plans
- Submitted construction plans for review and approval
- Obtained necessary foundation and building permits
- Conducted groundbreaking ceremony
- Began construction
 - Please reference letter from Thomas Construction for details of construction progress

A. CONSTRUCTION PROJECTS

1. Anticipated date of project completion.

Certificate of Occupancy Date – 09/11/2018

Licensure Date – 10/11/2018

2. Provide written confirmation from the contractor documenting the stage of construction at the current time.

- Please reference attached letter from Thomas Construction.

3. If proposed construction costs have increased over ten (10%) percent please provide information as an
-



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attachment to this form. Please note that such an overrun could require additional action before the Agency.

- The applicant anticipates a cost overrun, and is asking, through correspondence with the HSDA Executive Director, for authorization of an increase in the project costs. A copy of this request is attached to this report.

B. NON-CONSTRUCTION PROJECTS

1. Anticipated date of service implementation, acquisition or operation of the facility or equipment as certified.
N/A
2. Provide written confirmation from the institutional representative verifying the occupancy/opening date for the service, equipment, or facility.

N/A

Signature of Authorized Agent or Chief Operating Officer

10/31/17

Date



Thomas

October 20, 2017

Ms. Alecia L. Craighead
Statistical Analyst
Health Services and Development Agency
Andrew Jackson Building, 9th Floor
502 Deaderick Street
Nashville, TN 37243

Re: SBH-Kingsport, LLC
Kingsport, Tennessee

Ms. Craighead,

We have prepared the following status report on the referenced project for your use:

The sitework subcontractor mobilized July 26, 2017 and initiated sitework per receipt of the grading permit from the City of Kingsport, TN on July 25, 2017. Sitework began with clearing and grubbing to allow for silt and tree fence installation to meet requirements. After clear/grub was complete, stream modification and sewer relocation started. This work included installation of head walls for piping to cross creek with drives, along with installation of new storm structures to allow access. This work continued through receipt of the building permit August 29, 2017 followed by mobilization of site retaining wall materials and grading equipment. A third party geotechnical service recommended and observed removal of approximately 2,500 cubic yards of unsuitable soils from the site in preparation for driveways and the building pad. A utility crew began mobilization September 25, 2017 starting with storm sewer at and below building pad working outward to the retention pond. Water, sewer, fire and electrical utility piping and conduits were started once building utility undergrounds were complete.

The concrete subcontractor mobilized middle/late week starting September 25, 2017 to start excavation of footings and foundations on October 2, 2017 (once under slab utilities were complete.) Following rebar installation and placed footings, underground plumbing and electrical were released to begin while the masonry subcontractor laid exterior foundation walls for the perimeter of the building. During this time, parking and driveway curbing and stone commenced to cut down on mud trafficking and stabilization for material laydown areas and construction parking.

Should you have any questions or need any further information, please call.

Sincerely,

THOMAS CONSTRUCTION GROUP, LLC






Vince Tryer, Jr.
Vice President – Operations Manager

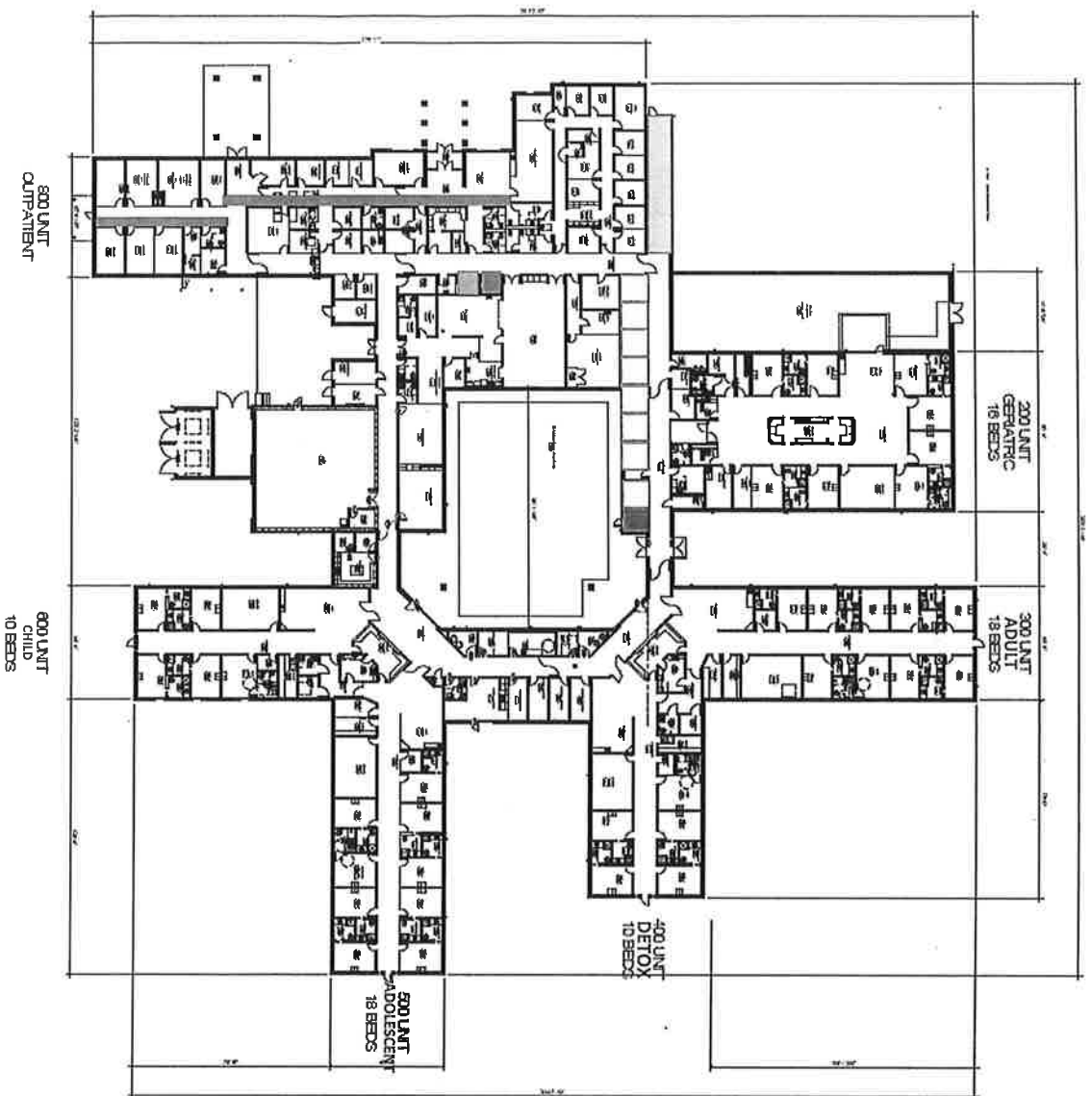
VST/js



Kingsport Behavioral Health

Plan Change Legend

-  8 offices, 1081 sq. ft.
-  1 Storage Room, 105 sq. ft.
-  Outpatient corridor width increase, 366 sq. ft.
-  2 Restrooms, 144 sq. ft.
-  Hallway, 508 sq. ft.





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01:27 PM 11/17/2018

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Project Description:

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Site Address: 1025 Executive Park Boulevard, Kingsport (Sullivan County), TN 37660

Estimated project cost of: \$11,691,609

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VST/js

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WILLIAM WEST, SHAREHOLDER
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E-Mail Address: bwest@bakerdonelson.com

November 1, 2017

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If you have any questions, please advise. I look forward to meeting with you to answer any questions you may have.

Sincerely,

BAKER, DONELSON, BEARMAN,
CALDWELL & BERKOWITZ, PC



William West

WHW/mhh
Enclosures

cc: Jim Shaheen
Mike Garone



State of Tennessee

Health Services and Development Agency

Andrew Jackson, 9th Floor, 502 Deaderick Street, Nashville, TN 37243

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Phone: 615-741-2364

Fax: 615-741-9884

October 24, 2017

Mr. William West
Baker Donelson
211 Commerce Street
Nashville, TN 37201

RE: SBH-Kingsport, LLC - CN1312-050DA

Dear Mr. West:

Please find enclosed your Certificate of Need for the above-referenced application.

The Health Services and Development Agency Rules require that an Annual Progress Report be submitted each year and a Final Project Report form is to be submitted within ninety (90) days after completion of a project which shall include completion date, final costs, and other relevant information in regards to the project, pursuant to Public Acts 2002, Chapter No. 780, § 16-11-1609(d). Also required is the registration of certain medical equipment pursuant to Tennessee Code Annotated § 68-11-1607(i), which states "*The owners of the following types of equipment shall register such equipment with the health services and development agency: computerized axial tomographers, lithotripters, magnetic resonance imagers, linear accelerators and positron emission tomography.*" "*The survey shall include but not limited to the identification of the equipment and utilization data according to source of payment.*"

The aforementioned forms can be found on the Agency's website at www.tennessee.gov/HSDA. Should you have any questions or require further information regarding this Certificate, please do not hesitate to contact this office.

Sincerely,

A handwritten signature in cursive script that reads "Melanie M. Hill".

Melanie M. Hill
Executive Director

cc: Trent Sansing, TDH/Health Statistics, PPA
Ann R. Reed, TDH/HCF
Marthagem Whitlock, TDMHSAS, PRF

STATE OF TENNESSEE
Health Services and Development Agency



Certificate of Need No. **CN1312-050DA** is hereby granted under the provisions of T.C.A. § 68-11-1601, *et seq.*, and rules and regulations issued thereunder by this Agency.

To: SBH-Kingsport, LLC
8295 Tournament Drive, Suite 201
Memphis, TN 38125

For: SBH-Kingsport, LLC (Strategic Behavioral Health - Kingsport)

This Certificate is issued for: Establishment of a new inpatient psychiatric hospital, initiation of inpatient psychiatric hospital services having 72 new licensed psychiatric beds [18 adult, 16 geropsychiatric, 28 child and adolescent, and 10 chemical dependency].

On the premises located at: Unaddressed site at the end of Executive Park Boulevard and East Stone Drive
Kingsport (Sullivan County), TN 37660

For an estimated project cost of: \$11,691,609

The Expiration Date for this Certificate of Need is

October 15, 2019

or upon completion of the action for which the Certificate of Need was granted, whichever occurs first. After the expiration date, this Certificate of Need is null and void.

Date Approved: June 28, 2016


Chairman

Date Issued: October 24, 2017


Executive Director